MCI Telecommunications Corporation
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November 30, 1995

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Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: Bell Atlantic Telephone Companies, Transmittal Nos. 741, 786, Revision to Tariff F.C.C. No. 10, Rates, Terms, and Regulations for Video Dialtone Service in Dover Township, New Jersey, CC Docket No. 95-145

Dear Mr. Caton:

Enclosed herewith for filing are the original and seven (7) copies of MCI Telecommunications Corporation's Opposition to Direct Case regarding the above-captioned matter.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Opposition to Direct Case furnished for such purpose and remit same to the bearer.

Sincerely yours,

Don Sussman
Regulatory Analyst

Enclosure
DHS

No. of Copies rec'd 0+7
List ABCDE

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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Bell Atlantic Telephone Companies	)	Transmittal Nos. 741, 786
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Revision to Tariff F.C.C. No. 10	)	CC Docket No. 95-145
	)	
Rates, Terms, and Regulations for Video Dialtone Service in Dover Township, New Jersey	)	DOCKET FILE COPY ORIGINAL

MCI OPPOSITION TO DIRECT CASE

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November 30, 1995

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Summary

On October 26, 1995, pursuant to the Common Carrier Bureau's Designation Order, released September 8, 1995, Bell Atlantic filed its Direct Case in the above-captioned proceeding. In response to Bell Atlantic's Direct Case, MCI herein submits its comments on the cost allocation issues raised by the Bureau, and opposes Bell Atlantic's method for allocating shared plant investment, its use of an unreasonably low overhead, and its apparent practice of requiring telephone users to recover 100 percent of investment related to spare equipment. MCI also comments on Bell Atlantic's request for confidential treatment of cost information which the Commission stated would be available to all interested parties.

In its Direct Case, Bell Atlantic has offered no compelling arguments, explanation, nor information that justifies its proposed method for assigning the costs of equipment used to provide both video dialtone services and telephone services ("shared" or "common" costs). Furthermore, it has not demonstrated that its proposed rates recover all costs related to video dialtone. Therefore, MCI urges the Bureau to declare Bell Atlantic's proposed video dialtone rates unlawful, and to prescribe a cost assignment methodology for shared or common costs that holds telephone users harmless to investment spurred by Bell Atlantic's venture into video dialtone services. In the alternative, the Bureau should adopt a cost assignment methodology for shared costs that is based on either minutes of use or relative bandwidth. While these methods inevitably shift

some video dialtone costs to telephone ratepayers, they at least ensure that the bulk of broadband costs will be borne by users of the broadband network.

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MCI OPPOSITION TO DIRECT CASE

I. Introduction

MCI Telecommunications Corporation ("MCI") respectfully submits its Opposition to the Direct Case filed by Bell Atlantic Telephone Company ("Bell Atlantic") on October 26, 1995, in the above-captioned proceeding. In the Designation Order, released September 8, 1995, the Common Carrier Bureau ("Bureau") designated 16 issues for investigation.[1] The Bureau ordered Bell Atlantic to provide additional information to support its tariff, including (1) its proposed cost allocation method for assigning the costs of its facilities between

[1] Order Designating Issues for Investigation, Trans. Nos. 741, 786, CC Docket No. 95-145 (released September 8, 1995)("Designation Order").

wholly dedicated video dialtone costs, wholly dedicated telephone costs, and shared costs; (2) identification of all reasonably identifiable costs of video dialtone; (3) whether Bell Atlantic's overhead loading factor is sufficient to allow video dialtone to recover a reasonable proportion of overhead costs; and (4) further support for its proposed terms and conditions for video dialtone service.

MCI has limited its comments to the cost allocation issues raised by the Bureau. Specifically, MCI opposes Bell Atlantic's method for allocating shared plant investment, its use of an unreasonably low overhead, and its apparent practice of requiring telephone users to recover 100 percent of investment related to spare equipment. MCI also comments on Bell Atlantic's request for confidential treatment of cost information which the Commission stated would be available to all interested parties.

In its Direct Case, filed October 26, 1995, Bell Atlantic has offered no compelling arguments, explanation, nor information that justifies its proposed method for assigning the costs of equipment used to provide both video dialtone services and telephone services ("shared" or "common" costs). Furthermore, it has not demonstrated that its proposed rates recover all costs related to video dialtone. MCI therefore urges the Bureau to declare Bell Atlantic's proposed video dialtone rates unlawful, and to prescribe a cost assignment methodology for shared or common costs that holds telephone users harmless to investment spurred by Bell Atlantic's venture into video dialtone services. In the alternative, the Bureau should adopt a cost assignment methodology for shared costs that is based on either minutes of use or relative bandwidth. While these methods inevitably shift some video dialtone costs to telephone ratepayers, they at least ensure that the bulk of broadband costs will be borne by users of the broadband network.

II. The Dover Township System is a Cable Television Network

Whatever the future may hold for switched broadband technology, even a cursory examination of the direct case reveals that the Dover Township system is nothing more than a cable television network added on to the existing telephone network. First, as Bell Atlantic itself admits, much of the network is dedicated to transporting television signals between the programmer-customer and the Host Digital Terminal ("HDT"). None of this can be characterized as telephony. Nor does the existing telephone network change as a result of video dialtone deployments --calls continue to be routed, switched, transported the same way. The only difference is that now, instead of common line distribution plant made of copper (which is relatively low cost and significantly depreciated), the telephone signal will ride a new distribution facility that has been constructed in order to transmit one-way television signals past homes and businesses.

As Bell Atlantic itself describes the Dover Township system, it is installing "fiber to the curb" with a coaxial cable carrying the television signals into the customer premises, and copper pair carrying telephone calls. A total of 383 video channels are available, but these are all one-way -- the system does not accommodate switched broadband in any sense comparable to the switched telephony of today.[2] While some small portion of the fiber distribution link must be engineered to permit telephony, Bell Atlantic insists that the distribution network is simply not comparable to telephony.

It is worth noting that the cable television system Bell Atlantic has designed would be less expensive if it had decided not to utilize the distribution plant for telephony. For example, a line card would not be required in the HDT to permit voice communication,and the processes in the ONU could have been simpler.[3] Bell Atlantic would not have to allocate costs which are common to both cable and telephone to cable.

At various points in Bell Atlantic's direct case, Bell Atlantic refers to its system as an "integrated network" of telephony and video. MCI suggests that what little integration exists in the Dover Township system is testament to how different the cable and telephone technologies are.

III. Bell Atlantic's Request for Confidential Cost Support Contradicts the Commission's Decision to Allow Unfettered Access to Cost Support

In the Commission's Video Dialtone Reconsideration Order, released November 7, 1994, the Commission repeatedly expressed its concern that local exchange carriers ("LECs") investing in video dialtone facilities would have

[2] Bell Atlantic Direct Case, Affidavit of William Taylor, at 5.

[3] Bell Atlantic Direct Case, Affidavit of Dr. Charles Jackson at 3.

"incentives and opportunities" to price video dialtone services unreasonably low relative to the costs of providing such service.[4] To ensure that telephone ratepayers would not have to bear an unreasonable portion of the costs of video dialtone, the Commission determined that it would be in the public interest for LECs to submit with their video dialtone tariffs a more detailed and complete identification of direct costs than it has generally required in other new services filings.[5]

The Commission made this decision to require more detailed cost support with the specific purpose of subjecting the cost support to the "intense scrutiny" of interested parties. In addition, the Commission said:

> We conclude that the video dialtone tariff review process will proceed more smoothly, and interested parties will be abler to participate more constructively, if they better understand our expectations in advance of tariff filings.[6]

There can be no doubt that the Commission specifically contemplated unfettered, on-the-record participation of all interested parties in evaluating Bell Atlantic's cost support.

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[4] Telephone Company-Cable Television Cross Ownership Rules, Section 63.54-63.58, CC Docket No. 87-266, Memorandum Opinion and Order on Reconsideration and Third Further Notice of Proposed Rulemaking, 10 FCC Rcd 247 (1994)("Video Dialtone Reconsideration Order").

[5] Video Dialtone Reconsideration Order 10 FCC Rcd at 343-347.

[6] Id. at ¶215.

Contrary to the Commission's specific and explicit intent, Bell Atlantic has redacted an overwhelmingly large portion of its cost information that is fundamental to determining whether its proposed video dialtone rates are reasonable. As a result, the public record is less extensive and detailed in many important areas than that of a routine tariff filing. Typically, when a LEC introduces a new service, its proposed rates are derived by adding overhead to the total amount of investment which is related to that service. Interested parties evaluate the reasonableness of the proposed rates by determining whether the total level of investment and the amount of overhead applied to the investment are reasonable. LECs routinely file the cost of individual equipment components, or groups of equipment, to support the total investment numbers. Interested parties can analyze the components of each rate element to determine if the LEC has either overstated or understated the cost of individual pieces or groups of equipment. Parties also compare the overhead loadings that LECs propose with loadings on similar services. The analysis offered by interested parties provides the Commission staff with information that might not otherwise be available to Commission staff.

In its Direct Case, Bell Atlantic redacted not only the detailed cost information of individual pieces of equipment, but also investment information for entire rate elements. For example, as is illustrated in the attached pages taken from Bell Atlantic's Direct Case, Bell Atlantic redacted Unit Price, Total Material Price, Material plus Labor Investment, Investment per Potential Subscriber, Utilized Investment per Potential Subscriber, and Total Investment.[7] Interested parties know only Bell Atlantic's rate for this equipment, and know nothing about its cost, including overhead costs. There is no way to assess the reasonableness of the proposed rate. Concealment of cost information is repeated throughout Bell Atlantic's cost support, and has severely hampered MCI's ability to review rates for reasonableness.

In the wake of the Commission's commitment to allow interested parties to scrutinize LECs' rates to ensure that telephone ratepayers do not subsidize LEC entry into video dialtone service, all parties must be ensured on-the-record access to cost information that will lead to meaningful analysis of Bell Atlantic's proposed video dialtone rates. The Bureau should not permit Bell Atlantic to preclude interested parties from assessing the reasonableness of its video dialtone rates. The Bureau should deny Bell Atlantic's request for confidential treatment of cost support and require Bell Atlantic to place its cost support on the public record.[8]

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[7] Sometimes, as is the case for Video Serving Office Equipment, Bell Atlantic has provided Total Investment per Unit. However, this number by itself does not give interested parties insight into the reasonableness of the proposed rates.

[8] Per the Bureau's Order denying MCI's request for an extension of time, MCI looks forward to the day when it has access to all of Bell Atlantic's cost support so that it can supplement this opposition.

IV. Bell Atlantic's Method of Assigning Common Costs is Unreasonable

In its Direct Case, Bell Atlantic argues that the Bureau does not have authority to determine which method a carrier should use to allocate investment in shared plant, as long as it is reasonable. Bell Atlantic argues that any method of allocating shared costs is arbitrary, and thus, any method that the LECs employ to assign shared plant investment is reasonable. Bell Atlantic's argument is wrong.

In the Video Dialtone Reconsideration Order, the Commission stated that it expected LECs to include in direct costs a reasonable allocation of other costs that are associated with shared plant used to provide video dialtone and other services.[9] The Commission also stated that it would scrutinize the basis on which those costs are identified and included in the proposed charges.[10] In its Order, the Commission specifically delegated authority to the Bureau to determine a reasonable method for allocating the common costs, and to determine whether a standardized methodology for allocating common costs would be in the public interest.[11]

The Bureau clearly has legal authority to determine which method carriers should use to assign common investment resulting from investment in a video

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[9] Video Dialtone Reconsideration Order 10 FCC Rcd at 345.

[10] Id.

[11] Video Dialtone Reconsideration Order 10 FCC Rcd at 346.

dialtone network. The Bureau need not accept any methodology Bell Atlantic provides. Just the opposite is true -- the Commission has delegated to the Bureau the responsibility to discover which allocation method best serves the public interest. Stated differently, the Commission has delegated its authority to the Bureau which has the option of resolving allocation issues on a case-by-case basis or by adopting a rule applicable to all. But unlike a traditional tariff process, where the boundaries of the reasonableness dictate whether a tariff is lawful, here there is no specific delegation of rulemaking authority.

As discussed below, it is in the public interest for the Commission to prescribe a standard method for assigning shared plant investment that does not require telephone users to pay for facilities that they do not need, and which add no value to telephone service. The costs associated with Bell Atlantic's video dialtone network are significant, and must be recovered by the services which caused the investment.

Issue A: Has Bell Atlantic reasonably assigned the costs associated with primary plant among wholly dedicated video dialtone costs, wholly dedicated telephony costs, and shared costs?

The Bureau determined that Bell Atlantic's assignment of costs between telephone and video dialtone service is relevant and important despite the fact that Bell Atlantic is under price cap regulation, because there are situations where an improper cost assignment to telephony services could affect the rates charged for those services.[12] The Bureau recognized that although Bell Atlantic chose the no-sharing option under the Commission's interim plan, the Commission has not yet adopted a long-term plan. Thus, Bell Atlantic is under no obligation to remain under pure price caps, at the federal level, in future years. The Commission must continue to closely monitor and assess how Bell Atlantic recovers its investment.

Even under "pure" price caps, there is a need for accurate cost allocation if only to ensure that the Commission has accurate information about the relative profitability of video dialtone services in the future.

Bell Atlantic's projected investment for video dialtone services in Dover Township are as follows:[13]

Category	Projected Investment
Video Dialtone Only	$9.6 million
Telephone/Other Only	$13.2 million
Shared	$45.6 million
Total Investment	$68.4 million

Bell Atlantic argues that the cost of the network should be assigned based on each component's function or use in the network in providing each service.[14] It argues that facilities which are used only by telephone services should be

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[12] Designation Order at 6.

[13] Bell Atlantic Direct Case at 16.

[14] Bell Atlantic Direct Case at 13.

recovered by telephone users, facilities that are dedicated to video use should be financed by video customers, and facilities that are not dedicated to the use of either category of users should be deemed shared. Bell Atlantic proposes to assign costs that it determines to be shared based on the ratio of video only investments to the sum of video only and voice only investments.[15] Based on this ratio, Bell Atlantic concludes that only 28 percent of shared costs should be allocated to video dialtone and 72 percent should be allocated to telephone.[16]

The amount that Bell Atlantic has determined to be shared plant investment in Dover Township, New Jersey is significant. Bell Atlantic's investment in shared plant in Dover Township, New Jersey is estimated to exceed $45 million. This represent nearly 1.5 percent of Bell Atlantic's investment in cable and wire facilities in 1994 for the entire state of New Jersey.[17] All of this is being recovered by common line, 75 percent of which is being allocated to the state jurisdiction.

Bell Atlantic contends that its method for assigning shared plant is reasonable because assignment of common costs is economically "arbitrary."

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[15] Bell Atlantic Direct Case at 10.

[16] Simple math shows that even if Bell Atlantic's methodology for allocating shared plant investment were to be adopted, its calculations would result in 42 percent of shared plant investment being allocated to video dialtone services ($9.6 million / ($9.6 million + $13.2 million) =42%), not 28 percent.

[17] According to Statistics of Communications Common Carriers, Table 2.9, Investment in Cable and Wire Facilities in New Jersey totaled $3.4 billion.

Bell Atlantic defends this position, in part, by arguing that because it has adopted pure price caps, its telephone ratepayers can not be harmed by adding costs to telephone services. Bell Atlantic also argues that its method is reasonable because it permits Bell Atlantic to charge rates for video transport which are low enough to attract customers. Bell Atlantic contends that because of the elasticity of the video market, if it were required to allocate shared costs based on a method that assigned more costs to video than the proposed 28 percent, Bell Atlantic would not be able to compete in the video market. In fact, Bell Atlantic argues that a 50/50 assignment of shared costs would reduce its demand for video services by 100 percent.[18] Finally, Bell Atlantic also argues that its proposed methodology is reasonable because the Commission has approved use of that type of allocation methodology in other contexts.[19]

MCI does not believe that price cap regulation fully protects telephone access customers from paying for the costs of network upgrades needed to provide a video dialtone service that telephone customers do not require. First, LECs can presently influence the level of their the price cap indices governing telephone rates by increasing the costs of telephony and producing lower reported earnings. Lower earnings benefit the LECs in two ways: (1) lower earnings might result in a smaller sharing requirement -- price cap

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[18] Bell Atlantic Direct Case, Rider Testimony.

[19] Bell Atlantic Direct Case at 14.

indices would decrease less; and (2) lower earnings can influence the regulators' ongoing monitoring and review of price cap regulation in that a regulator is less likely to call for a review of price caps if earnings appear to be stable. By shifting video dialtone costs to telephony, the LECs have much to gain. Bell Atlantic is under no obligation to continue under pure price caps; its argument that its has selected pure price caps for 1995 has no bearing on how it will be regulated in the future.

If Bell Atlantic cannot attract video dialtone customers at rates that reflect the full cost of providing video dialtone, then they should not provide that service. Telephone ratepayers should not be required to pay for any equipment that they do not require solely so that Bell Atlantic can charge a price low enough to attract video dialtone customers. It is irrelevant whether telephone services can be transported over or through some of the equipment which is being purchased and installed because Bell Atlantic needs this equipment to provide video services. If this equipment offers no benefits to telephone users, they should not be required to pay for it. No costs which result from Bell Atlantic's venture into video services should be recovered from telephone service.

For example, there is no reason why Bell Atlantic's telephone traffic must pass through the Host Digital Terminal, over the fiber connected to the Optical Network Unit, or through the Network Interface Device. All of this equipment is being purchased because Bell Atlantic wants to offer cable television, and adds no value to telephone users. Bell Atlantic has not explained how its telephone customers benefit from passing through this equipment, and why they should not continue to utilize the existing telephone network.

Bell Atlantic briefly argues that deployment of a fiber-to-the curb distribution system will result in "efficiencies" in distribution plant, and that there will be less maintenance expense for this system.[20] While MCI agrees that this result obtains in a transport environment, the arguments do not ring true in the case of distribution facilities (common line). Bell Atlantic has offered no proof, for example, that fewer vehicles will damage aerial fiber than aerial copper, or fewer backhoes will damage underground fiber than underground copper. In any event, any "benefits" to the telephone distribution plant accrue in the first instance to shareholders. Yet telephone ratepayers stand at great risk of paying for these so-called "improvements."

Bell Atlantic also attempts to justify its methodology of assigning shared plant by arguing that the Commission has previously approved use of this methodology under Part 64 of its rules. What Bell Atlantic fails to note is that this allocation methodology is the Commission's last resort --its least favored option. Section 64.901 of the Commission's rules specifically states that, "whenever possible," common cost categories are to be allocated based upon direct analysis of the origin of the costs themselves. If this is not possible, common cost categories shall be allocated based upon indirect, cost-causative linkage to

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[20] Taylor Affidavit.

another cost category for which a direct assignment or allocation is possible. Only when neither of these options is possible should the method proposed by Bell Atlantic be considered.

Moreover, what the Part 64 rules really stand for is the proposition that LEC ventures into new telecommunications markets, if successful, should redound to the partial benefit of ratepayers, and that ratepayers should be insulated from failure of the new venture.[21]

MCI is concerned about the effect that video dialtone costs will have on state rates, including intrastate access. The Commission has thus far decided not to address any changes in Separations Rules to ensure that the network costs that are today being driven to the intrastate jurisdiction do not represent the cost of building and deploying a network for interstate video dialtone services. However, without specific guidance from the Commission, the LECs have flexibility to interpret the Separations Manual in ways that will allow them to assign to the state jurisdiction costs that are incurred to provide interstate VDT service. Since many state jurisdictions continue to regulate LECs using a rate of return, or "cost-plus" methodology, and since video dialtone costs are not segregated, identified, or distinguished from telephony costs, the costs of building and deploying an interstate video dialtone network may also be reflected in state telephony revenue

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[21] Separation of Cost of Regulated Telephone Service From Costs of Nonregulated Activities, CC Docket No. 86-111, 2 FCC Rcd 1296, 1312 (1987).

requirements and rates. Bell Atlantic has not demonstrated how intrastate ratepayers in New Jersey are insulated from these issues, except to offer a conclusory statement that New Jersey regulates Bell Atlantic under some form of price caps.

Given the Commission's clear preference for assigning shared costs based on "analysis of the costs themselves," MCI urges the Commission to require Bell Atlantic, and all LECs that invest in shared video dialtone equipment, to allocate all investment that is spurred or "caused" by a LECs venture into video dialtone to be assigned and recovered by video dialtone services. This would mean that the Commission would continue to allocate to telephone only those costs that it allocated to telephone before the LEC decided to enter video. All other investment would be recovered by video dialtone. If such an allocation did not allow a LEC to charge what it deemed to be "market-based" video rates, then perhaps the LEC should not enter that market. The Commission is under no obligation to create a new industry that must be cross-subsidized from a monopoly line of business.

If the Commission determines that telephone users should bear some of the financial responsibility of financing Bell Atlantic's cable television system, then telephone users should only pay for what they need, or use. The video dialtone network that Bell Atlantic is deploying is based on continuous transport of video services. Customers that want to see a movie, for example, simply tap into this constantly flowing stream of video data. The video data does not begin only when a customer requests a movies, nor does it stop when a customer turns off the TV. It makes perfect sense for these facilities to be primarily recovered by video because video is utilizing these facilities 24 hours a day. Telephone users, on the other hand, only use the facilities for a fraction of the amount of time. The amount recovered by telephone end users should thus be proportional to the amount they utilize the network. Relative use is an allocation method that the Commission has used extensively and requires no departure from past policy.[22]

If the Bureau determines that it cannot accurately determine the usage of the network based on minutes of use, then it should adopt a methodology that assigns cost based on capacity utilization. The video dial tone network will utilize nearly all of its bandwidth to transport video signals. It is only logical that video recover the cost of the bandwidth that it utilizes.

Under no circumstance should captive telephone users be forced to finance a LEC's venture into a service that the telephone user does not need or utilize. If the Commission believes that telephone users will one day benefit from a broadband network, that might utilize the Dover Township distribution network, then the Commission should assign no more than 50 percent of the investment in shared plant to telephone service. It is implausible that telephone users would ever utilize a broadband network more than video customers. Telephone

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[22] For example, the Separations Manual relies on relative use methodologies.

customers should never be required to pay more for shared video plant than do video customers.

The Commission must also not permit Bell Atlantic to recover the cost of spare equipment, that will be utilized in the future to provide yet-to-be determined services, from telephone users. Bell Atlantic suggests that all spare capacity and facilities will be recovered by telephone, because video dialtone pays only for the actual number and mileage of fiber or copper cables utilized plus a proportionate share of poles and conduit calculated from investment.[23] For example, Bell Atlantic states that if the video service utilizes 2 fibers within a 216 fiber sheath, it pays 2/216th of the installed cost of that sheath.[24] Telephone customers are therefore paying for the other 214 fibers that are being put in place either to provide today's video services or to assist Bell Atlantic to provide services that have yet to be identified. In either case, spare should not be recovered by telephone users that do not need it. It should be recovered from either video customers or Bell Atlantic's shareholders.

The Bureau should adopt a provision which protects ratepayers from Bell Atlantic shifting, or re-assigning, video dialtone costs to telephony. If Bell Atlantic's video dialtone service turns out not to be commercially viable, Bell Atlantic should not be allowed to assign video dialtone costs to its telephony

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[23] Bell Atlantic Direct Case at 4.

[24] Id.

services. Similar to the rules adopted for the costs of nonregulated services, the Commission should require LECs to allocate common plant investment based on a three-year forecast.[25] LECs should be permitted to allocate additional costs to telephone only if they are granted a waiver to do so. This will ensure that telephone ratepayers do not serve as a cash cow to protect the LEC from the effects of a bad business decision.

In addition, Bell Atlantic classifies the Network Interface Device ("NID") as shared plant. The NID represents the network demarcation point at the end-user subscriber's premises. However, depending on where one looks in Bell Atlantic's Direct Case, one will find different investment associated with the NID. For example, on page 3-9, Bell Atlantic states that investment related to the NID consists of an adjunct modular plug which is added to the existing telephony interface device allowing the integrated device to handle both video dialtone and telephony services. Yet in its cost support for the NID (see attached), Bell Atlantic shows investment for Shrink Tubing/Misc., Grounding Block, Grnd Blck/W 4 Way Splitter, Ground Rod, Wall Plate, Copper Wire Clamp, waterproofing and 5 F Connectors. Obviously there is an inconsistency between Bell Atlantic's cost support (which identifies eight separate elements) and its description on page 3-9 (which identifies one adjunct plug).

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[25] 47 C.F.R. §64.901.

Moreover, Bell Atlantic has presented evidence that suggests that the NID should not be classified as shared plant. According to Bell Atlantic, the NID equipment for which it is charging $35.14 per potential subscriber, "is equipment in addition to what would ordinarily be required for dial tone service."[26] By Bell Atlantic's own admission, the $35.14 is not necessary for telephone and should be allocated solely to video dial tone. The Commission should, therefore, order Bell Atlantic to assign the costs associated with the NID to video dialtone.

V. Overhead Loadings for Video Dialtone Elements Are Inconsistent with the Loadings for Similar Services, in Violation of New Services Test

Issue E: Is the overall overhead loading factor used by Bell Atlantic for the video dialtone service in Dover Township, New Jersey reasonable?

In the Designation Order, the Bureau explained that the Commission is concerned that LECs may have an incentive to apply unreasonably low overhead loadings. Thus, in the Video Dialtone Reconsideration Order, the Commission stated that it would require a strong justification from carriers for extremely low overhead allocations.[27] In the Suspension Order, the Bureau stated that the overhead loading factor of 1.2 was low enough to warrant investigation into the reasonableness of the Bell Atlantic's video

[26] See Bell Atlantic Cost Support for the Network Interface Device filed in Bell Atlantic's Direct Case (Attached).

[27] Video Dialtone Reconsideration Order, 10, FCC Rcd at 345.